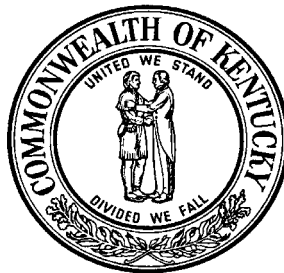


**REPORT OF THE AUDIT OF THE
HANCOCK COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

The enclosed report prepared by Simon, Underwood & Associates PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements.

We engaged Simon, Underwood & Associates PSC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Simon, Underwood & Associates PSC evaluated the Hancock County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
SIMPSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**

Simon, Underwood & Associates PSC

Certified Public Accountants and Consultants
4020 Taylorsville Road
Louisville, KY 40220

Telephone: 502-456-4860
Facsimile: 502-456-4829

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2004

Simon, Underwood & Associates PSC has completed the Hancock County Fiscal Court audit for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, each major fund, and a qualified opinion on the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$5,508,765 as of June 30, 2004. The fiscal court had unrestricted net assets of \$1,697,884 in its governmental activities as of June 30, 2004, with total net assets of \$5,508,765. The fiscal court had total debt principal as of June 30, 2004 of \$130,123 with 46,583 due within the next year.

Report Comments:

- Lack of Internal Controls and Supporting Documentation in the Jail
- Lack of Notification of Intent to Borrow

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	2
HANCOCK COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	41
COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	45
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	49
COMMENTS AND RECOMMENDATIONS	53
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	57
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	

Simon, Underwood & Associates PSC

Certified Public Accountants and Consultants

4020 Taylorsville Road
Louisville, KY 40220

Telephone: 502-456-4860

Facsimile: 502-456-4829

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Jack McCaslin, Hancock County Judge/Executive

Members of the Hancock County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Hancock County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the fourth paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Hancock County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The former Hancock County Jailer, Michael Axton, did not return management representations to us. Auditing standards generally accepted in the United States of America requires a management representation letter to be submitted to the auditor. In addition, jail fund revenues could not be substantiated due to the lack of internal controls and supporting documentation.

In our opinion, except for the effects to the Jail Fund as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information of Hancock County, Kentucky, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Hancock County, Kentucky, as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hancock County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects to the jail fund as described in paragraph four, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2005 on our consideration of Hancock County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of comments and recommendations, included herein, which discusses the following report comments:

- Lack of Internal Controls and Supporting Documentation in the Jail
- Lack of Notification of Intent to Borrow

Simon, Underwood & Associates PSC

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

Louisville, Kentucky
August 25, 2005

HANCOCK COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2004

Fiscal Court Members:

Jack B. McCaslin	County Judge/Executive
William H. Covetts	Magistrate
Franklin W. Estes	Magistrate
Loren T. Newton	Magistrate
Michael C. Powers	Magistrate

Other Elected Officials:

Harold W. Newton	County Attorney
Michael R. Axton	Jailer
Trina M. Ogle	County Clerk
Noel J. Quinn	Circuit Court Clerk
Ralph D. Bozarth	Sheriff
Dennis R. Long	Property Valuation Administrator
David C. Gibson	Coroner

Appointed Personnel:

Harvey A. Hawkins	County Treasurer
-------------------	------------------

THIS PAGE LEFT BLANK INTENTIONALLY

HANCOCK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

HANCOCK COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government	
	Governmental	
	Activities	Totals
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 1,289,210	\$ 1,289,210
Receivables	396,964	396,964
Restricted Cash and Cash Equivalents	106,800	106,800
Total Current Assets	<u>1,792,974</u>	<u>1,792,974</u>
Noncurrent Assets:		
Receivables - Long Term	35,033	35,033
Capital Assets - Net of Accumulated Depreciation:		
Land and Land Improvements	780,102	780,102
Buildings	1,557,492	1,557,492
Other Equipment	479,917	479,917
Vehicles and Equipment	597,520	597,520
Infrastructure	395,850	395,850
Total Noncurrent Assets	<u>3,845,914</u>	<u>3,845,914</u>
Total Assets	<u>5,638,888</u>	<u>5,638,888</u>
LIABILITIES		
Current Liabilities:		
Financing Obligations	<u>46,583</u>	<u>46,583</u>
Total Current Liabilities	<u>46,583</u>	<u>46,583</u>
Noncurrent Liabilities:		
Financing Obligations	<u>83,540</u>	<u>83,540</u>
Total Noncurrent Liabilities	<u>83,540</u>	<u>83,540</u>
Total Liabilities	<u>130,123</u>	<u>130,123</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	3,680,758	3,680,758
Restricted For:		
Debt Service	130,123	130,123
Unrestricted	<u>1,697,884</u>	<u>1,697,884</u>
Total net assets	<u>\$ 5,508,765</u>	<u>\$ 5,508,765</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received			
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
General Government	1,032,089	\$ 97,867	\$ 352,068	\$ 223,535	
Protection to Persons and Property	922,899	5,627	138,163		
General Health and Sanitation	135,854				
Social Services	132,458				
Recreation and Culture	344,756				
Roads	1,235,730		527,441		
Airports	425				
Interest on Long Term Debt	2,152				
Administrtation	1,038,564				
Total Governmental Activities	4,844,927	103,494	1,017,672	223,535	
Total Primary Government	\$ 4,844,927	\$ 103,494	\$ 1,017,672	\$ 223,535	

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Interest Expense

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental			
Activities		Totals	
\$ (358,619)	\$	(358,619)	
(779,109)		(779,109)	
(135,854)		(135,854)	
(132,458)		(132,458)	
(344,756)		(344,756)	
(708,289)		(708,289)	
(425)		(425)	
(2,152)		(2,152)	
<u>(1,038,564)</u>		<u>(1,038,564)</u>	
 (3,500,226)		 (3,500,226)	
 <u>\$ (3,500,226)</u>	 <u>\$</u>	 <u>(3,500,226)</u>	

220,643		220,643	
9,065		9,065	
31,881		31,881	
2,806,267		2,806,267	
107,083		107,083	
33,013		33,013	
<u>245,246</u>		<u>245,246</u>	
 3,453,198		 3,453,198	
<u>(47,028)</u>		<u>(47,028)</u>	
<u>5,555,793</u>		<u>5,555,793</u>	
 <u>\$ 5,508,765</u>	 <u>\$</u>	 <u>5,508,765</u>	

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HANCOCK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

HANCOCK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Non- Major Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 965,293	\$ 13,212	\$ 310,705	\$ 1,289,210
Restricted Cash and Cash Equivalents	106,800			106,800
Total Assets	<u>\$ 1,072,093</u>	<u>\$ 13,212</u>	<u>\$ 310,705</u>	<u>\$ 1,396,010</u>
FUND BALANCES				
Unreserved:				
General Fund	265,293			265,293
Special Revenue Fund		13,212	309,378	322,590
Reserved for:				
Landfill Postclosure	700,000			700,000
Debt Service	106,800		1,327	108,127
Total Fund Balances	<u>\$ 1,072,093</u>	<u>\$ 13,212</u>	<u>\$ 310,705</u>	<u>\$ 1,396,010</u>

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Total Fund Balances	\$ 1,396,010
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	6,344,439
Accumulated Depreciation	(2,533,558)
 Receivables reported at the government-wide level are not current financial resources and therefore are not reported in the funds.	 431,997
 Long-term debt is not due and payable in the current period and therefore is not reported in the funds.	 <u>(130,123)</u>
Net Assets Of Governmental Activities	<u>\$ 5,508,765</u>

The accompanying notes are an integral part of the financial statements.

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HANCOCK COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Non- Major Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 2,911,024	\$	\$ 6,894	\$ 2,917,918
In Lieu Tax Payments	156,323			156,323
Excess Fees	107,083			107,083
Licenses and Permits	102			102
Intergovernmental	303,526	784,771	154,802	1,243,099
Charges for Services	97,687		3,863	101,550
Miscellaneous	193,753	48,725	24,969	267,447
Interest	25,394	563	7,055	33,012
Total Revenues	<u>3,794,892</u>	<u>834,059</u>	<u>197,583</u>	<u>4,826,534</u>
EXPENDITURES				
General Government	1,014,448			1,014,448
Protection to Persons and Property	609,995		312,902	922,897
General Health and Sanitation	133,379		2,475	135,854
Social Services	99,141		19,500	118,641
Recreation and Culture	336,892		3,248	340,140
Roads		1,564,201		1,564,201
Airports	425			425
Debt Service			20,802	20,802
Capital Projects	133,500			133,500
Administration	887,480	110,861	40,223	1,038,564
Total Expenditures	<u>3,215,260</u>	<u>1,675,062</u>	<u>399,150</u>	<u>5,289,472</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>579,632</u>	<u>(841,003)</u>	<u>(201,567)</u>	<u>(462,938)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	106,800			106,800
Transfers From Other Funds		799,000	256,500	1,055,500
Transfers To Other Funds	(1,055,500)			(1,055,500)
Total Other Financing Sources (Uses)	<u>(948,700)</u>	<u>799,000</u>	<u>256,500</u>	<u>106,800</u>
Net Change in Fund Balances	(369,068)	(42,003)	54,933	(356,138)
Fund Balances - Beginning	1,441,161	55,215	255,772	1,752,148
Fund Balances - Ending	<u>\$ 1,072,093</u>	<u>\$ 13,212</u>	<u>\$ 310,705</u>	<u>\$ 1,396,010</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**HANCOCK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

HANCOCK COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(356,138)
--	----	-----------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		741,243
Depreciation Expense		(315,348)

The amount of receipts received from entities who owe the County is included as revenue in the corresponding fund, however, at the government-wide level, it is netted against the receivable recorded.

Receivable Receipts		(28,635)
---------------------	--	----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds while the principle payment on long-term debt are expensed in the governmental funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds		(106,800)
Financing Obligation Payments		18,650

Change in Net Assets of Governmental Activities	\$	<u>(47,028)</u>
---	----	-----------------

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS	30
NOTE 3.	RECEIVABLES.....	31
NOTE 4.	CAPITAL ASSETS	32
NOTE 5.	FINANCING OBLIGATION AGREEMENTS	33
NOTE 6.	SHORT-TERM DEBT.....	34
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM	34
NOTE 8.	INSURANCE	35
NOTE 9.	LANDFILL CLOSURE AND POSTCLOSURE COSTS.....	35
NOTE 10.	CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS	35
NOTE 11.	SUBSEQUENT EVENTS	35

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the values of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Hancock County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. Based upon the application of the criteria above, there are no component units which merit consideration as part of the reporting entity.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Hancock County Elected Officials Not Part Of Hancock County, Kentucky

Kentucky law provides for election of the below officials from the geographic area constituting Hancock County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Hancock County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. The County has no business-type activities.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements. The County has no proprietary or fiduciary funds.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following nonmajor funds: Jail Fund, Local Government Economic Assistance Fund, 911 Dispatch Fund and Debt Service Fund.

Special Revenue Funds

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, and 911 Dispatch Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings and Building Improvements	\$ 1,000	10-40
Machinery and Equipment	\$ 5,000	5-10
Vehicles	\$ 7,500	5-10
Infrastructure - Bridges	\$ 5,000	10-50
Infrastructure - Roads	\$ 10,000	10-50

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, nor on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organization and Jointly Governed Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, Hancock County has no organizations considered related organizations of the Hancock County Fiscal Court.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organization and Jointly Governed Organization (Continued)

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, Hancock County has no organizations considered jointly governed organizations of the Hancock County Fiscal Court.

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based on these criteria, the Hancock County Urban Planning Commission is considered a joint venture of the Hancock County Fiscal Court.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the primary government deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name, and a provided surety bond which named the primary government as beneficiary/obligee on the bond.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Receivables

A. Hancock County Fiscal Court loaned \$364,000 to World Source Industries, Inc., on June 14, 1990 for the purpose of land acquisition. Arvin Roll Coater, Inc. has assumed this loan. Terms of the agreement stipulate a one-time payment on June 14, 2005. Arvin Roll Coater, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2004, the principal balance due was \$364,000.

B. Hancock County Fiscal Court loaned \$200,000 to World Source Industries, Inc., on August 21, 1990, for the purpose of land acquisition. Arvin Roll Coater, Inc. has since assumed this loan. Terms of the agreement stipulate a fifteen-year repayment schedule at interest of 6.421%. Arvin Roll Coater, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2004, the principal balance due was \$23,323.

C. On May 27, 1997, an agreement was entered into by and between Hancock County Fiscal Court and the Hancock County Health Department. The Fiscal Court loaned the Health Department \$65,000 without interest. This loan is to be paid back with revenues due to the Health Department from "in lieu of tax" receipts that will be due and payable to the Health Department in future years. The balance as of June 30, 2004 was \$26,674.

D. Hancock County Fiscal Court loaned \$36,000 to the Dukes Volunteer Fire Department on May 5, 1999 to fund the fire department addition. Terms of the agreement stipulate a ten-year repayment schedule without interest. Dukes Volunteer Fire Department is in substantial compliance with the terms of the agreement. As of June 30, 2004, the balance due was \$18,000.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 646,602	\$ 133,500	\$	\$ 780,102
Total Capital Assets Not Being Depreciated	646,602	133,500		780,102
Capital Assets, Being Depreciated:				
Buildings	2,486,459			2,486,459
Other Equipment	905,076	75,904		980,980
Vehicles and Equipment	1,565,059	114,156		1,679,215
Infrastructure		417,683		417,683
Total Capital Assets Being Depreciated	4,956,594	607,743		5,564,337
Less Accumulated Depreciation For:				
Buildings	(869,149)	(59,818)		(928,967)
Other Equipment	(419,597)	(81,466)		(501,063)
Vehicles and Equipment	(929,464)	(152,231)		(1,081,695)
Infrastructure		(21,833)		(21,833)
Total Accumulated Depreciation	(2,218,210)	(315,348)		(2,533,558)
Total Capital Assets, Being Depreciated, Net	2,738,384	292,395		3,030,779
Governmental Activities Capital Assets, Net	\$ 3,384,986	\$ 425,895	\$ 0	\$ 3,810,881

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 58,083
Protection to Persons and Property	73,716
General Health and Sanitation	165,116
Recreation and Culture	4,616
Social Services	13,817
Total Depreciation Expense - Governmental Activities	<u>\$ 315,348</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligation Agreements

A. Note Payable, Kentucky Development Finance Authority

Hancock County Fiscal Court borrowed \$200,000 from the Kentucky Development Finance Authority for the purpose of land acquisition for economic development. Terms of the agreement stipulate a fifteen-year repayment schedule at interest of 6.421%. Fiscal Court is in substantial compliance of the terms of the agreement. As of June 30, 2004, the principal balance was \$23,323. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 919	\$ 19,883
2006	28	3,440
Totals	<u>\$ 947</u>	<u>\$ 23,323</u>

B. Note Payable, Bittel Property

Hancock County borrowed \$106,800 from Harold and Wanda Bittel for the purpose of land acquisition. Terms of the agreement stipulate a payment of four equal installments annually with accrued interest at the certificate of deposit rate. The entire amount of the funds from the loan was deposited into a certificate of deposit to meet the debt service requirements. The balance due at June 30, 2004 was \$106,800. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2005	\$ 4,064	26,700
2006	3,039	26,700
2007	2,026	26,700
2008	1,013	26,700
Totals	<u>\$ 10,142</u>	<u>\$ 106,800</u>

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Financing Obligation Agreements (Continued)

C. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 41,973	\$ 133,650	\$ 45,500	\$ 130,123	\$ 46,583
 Governmental Activities					
Long-term Liabilities	<u>\$ 41,973</u>	<u>\$ 133,650</u>	<u>\$ 45,500</u>	<u>\$ 130,123</u>	<u>\$ 46,583</u>

Note 6. Short-term Debt

In July 2003, Hancock County Fiscal Court participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$1,189,300, with principal due June 30, 2004. While the Fiscal Court did not use the borrowed funds in order to meet current General Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$345.

Note 7. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5% of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34%.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky, 40601-6124, or by telephone at (502) 564-4646.

HANCOCK COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2004, Hancock County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Landfill Closure and Postclosure Costs

The Hancock County Landfill was closed on June 20, 1995. The Fiscal Court must comply with established state and federal landfill closure and postclosure procedures and must perform maintenance and monitoring procedures at the site for thirty years after closure. Estimated postclosure care costs total \$700,000 as of June 30, 2004, or \$25,000 per year. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. It is anticipated that postclosure costs will be paid out of the General Fund to the extent that funds are available with any excess costs being funded using long-term borrowings.

Note 10. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental type activities is an increase of \$3,803,645, due to capital assets, receivables and long-term debt previously not reported.

Note 11. Subsequent Events

The Hancock County Jailer was indicted on December 12, 2005 as a result of a state police investigation. As a result of this investigation and state mandates surrounding county jails, the jail was closed on August 31, 2005. The amount by which the result of this investigation would affect the assets, fund balances, and revenues of the jail fund is not reasonably determinable for the fiscal year ended June 30, 2004.

THIS PAGE LEFT BLANK INTENTIONALLY

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,912,470	\$ 2,912,470	\$ 2,911,024	\$ (1,446)
In Lieu Tax Payments	80,350	80,350	156,323	75,973
Excess Fees	75,540	75,540	107,083	31,543
Licenses and Permits	1,125	1,125	102	(1,023)
Intergovernmental Revenue	119,872	119,872	303,526	183,654
Charges for Services	91,700	91,700	97,687	5,987
Miscellaneous	90,910	90,910	193,753	102,843
Interest	60,000	60,000	25,394	(34,606)
Total Revenues	3,431,967	3,431,967	3,794,892	362,925
EXPENDITURES				
General Government	1,056,445	1,212,695	1,014,448	198,247
Protection to Persons and Property	681,063	681,063	609,995	71,068
General Health and Sanitation	182,027	144,756	133,379	11,377
Social Services	170,001	133,846	99,141	34,705
Recreation and Culture	424,073	376,073	336,892	39,181
Airports	2,000	2,000	425	1,575
Debt Service	25,000	4,790		4,790
Capital Projects			133,500	(133,500)
Administration	1,099,325	894,814	887,480	7,334
Total Expenditures	3,639,934	3,450,037	3,215,260	234,777
Excess (Deficiency) of Revenues				
Over Expenditures Before Other Financing Sources (Uses)	(207,967)	(18,070)	579,632	597,702
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			106,800	106,800
Transfers To Other Funds	(1,080,898)	(1,270,795)	(1,055,500)	215,295
Total Other Financing Sources (Uses)	(1,080,898)	(1,270,795)	(948,700)	322,095
Net Changes in Fund Balances	(1,288,865)	(1,288,865)	(369,068)	919,797
Fund Balances - Beginning	1,288,865	1,288,865	1,441,161	152,296
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,072,093	\$ 1,072,093

HANCOCK COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 648,875	\$ 648,875	\$ 784,771	\$ 135,896
Miscellaneous	35,850	35,850	48,725	12,875
Interest			563	563
Total Revenues	684,725	684,725	834,059	149,334
EXPENDITURES				
Roads	1,388,262	1,574,106	1,564,201	9,905
Administration	149,155	112,405	110,861	1,544
Total Expenditures	1,537,417	1,686,511	1,675,062	11,449
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(852,692)	(1,001,786)	(841,003)	160,783
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	847,692	996,786	799,000	(197,786)
Total Other Financing Sources (Uses)	847,692	996,786	799,000	(197,786)
Net Changes in Fund Balances	(5,000)	(5,000)	(42,003)	(37,003)
Fund Balances - Beginning	5,000	5,000	55,215	50,215
Fund Balances - Ending	\$ 0	\$ 0	\$ 13,212	\$ 13,212

HANCOCK COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY

HANCOCK COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2004

HANCOCK COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Special Revenue Funds				Total Non-Major Governmental Funds
	Jail Fund	Local Government Economic Assistance Fund	911 Dispatch Fund	Debt Service Fund	
ASSETS					
Cash and Cash Equivalents	\$ 1,042	\$ 101,347	\$ 206,989	\$ 1,327	\$ 310,705
Total assets	<u>\$ 1,042</u>	<u>\$ 101,347</u>	<u>\$ 206,989</u>	<u>\$ 1,327</u>	<u>\$ 310,705</u>
FUND BALANCES					
Unreserved:					
Special Revenue Fund	\$ 1,042	\$ 101,347	\$ 206,989	\$	\$ 309,378
Reserved for:					
Debt Service Fund				1,327	1,327
Total Fund Balances	<u>\$ 1,042</u>	<u>\$ 101,347</u>	<u>\$ 206,989</u>	<u>\$ 1,327</u>	<u>\$ 310,705</u>

THIS PAGE LEFT BLANK INTENTIONALLY

HANCOCK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

HANCOCK COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Special Revenue Funds				
	Local				Total
	Jail	Economic	911	Debt	Non-Major
	Fund	Assistance	Dispatch	Service	Governmental
	Fund	Fund	Fund	Fund	Funds
REVENUES					
Taxes	\$	\$	\$ 6,894	\$	\$ 6,894
Intergovernmental	33,143	38,360	83,299		154,802
Charges for Services	3,863				3,863
Miscellaneous	6,297	22		18,650	24,969
Interest		1,215	2,361	3,479	7,055
Total Revenues	43,303	39,597	92,554	22,129	197,583
EXPENDITURES					
Protection to Persons and Property	258,861	1,049	52,992		312,902
General Health and Sanitation		2,475			2,475
Social Services		19,500			19,500
Recreation and Culture		3,248			3,248
Debt Service				20,802	20,802
Administration	40,223				40,223
Total Expenditures	299,084	26,272	52,992	20,802	399,150
Excess (deficiency) of Revenues Over					
Expenditures Before Other					
Financing Sources (Uses)	(255,781)	13,325	39,562	1,327	(201,567)
Other Financing Sources (Uses)					
Transfers From Other Funds	256,500	-	-	-	256,500
Total Other Financing Sources (Uses)	256,500	-	-	-	256,500
Net Change in Fund Balances	719	13,325	39,562	1,327	54,933
Fund Balances - Beginning	323	88,022	167,427		255,772
Fund Balances - Ending	\$ 1,042	\$ 101,347	\$ 206,989	\$ 1,327	\$ 310,705

THIS PAGE LEFT BLANK INTENTIONALLY

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2004

**HANCOCK COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2004

INTERNAL CONTROL REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

Lack of Internal Controls and Supporting Documentation in the Jail

Jail fund revenues could not be substantiated due to the lack of internal controls and supporting documentation. In addition, the Hancock County Jailer was indicted on December 12, 2005 as a result of a state police investigation. As a result of this investigation and state mandates surrounding county jails, the jail was closed on August 31, 2005. Since the jail has been closed subsequent to these events, no further recommendations are deemed necessary.

County Judge/Executive Jack McCaslin's Response: We agree with these findings and recommendations. State police are pursuing all issues surrounding the Jail and Jailer currently.

NONCOMPLIANCES

Lack of Notification of Intent to Borrow

KRS 65.7719 requires notification of prescribed note information to the state local debt officer. Without first notifying the state local debt officer in writing, no notes shall be valid or obligatory. Notification shall contain the terms of the notes, including the interest rates or method of determining rates, the approximate date of issue, the maturity dates, the trustee or paying agent, if any, and shall include a copy of revenues to be collected during the terms of the notes. No approval of the state local debt officer shall be required. The County entered into a land acquisition agreement in which an installment note was created and a certificate of deposit was required to be reserved for the payment of the installments. Under KRS 65.7719, debt was incurred and therefore the state local debt officer should have been notified of the transaction. We recommend the County notify in writing, the state local debt officer, for all notes to be valid and obligatory.

County Judge/Executive Jack McCaslin's Response: We will monitor this situation to prevent any recurrence.

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Simon, Underwood & Associates PSC

Certified Public Accountants and Consultants

4020 Taylorsville Road
Louisville, KY 40220

Telephone: 502-456-4860

Facsimile: 502-456-4829

The Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated August 25, 2005 wherein we issued a qualified opinion on the aggregate remaining fund information. Hancock County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hancock County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- Lack of internal controls and supporting documentation in the Jail

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Honorable Jack McCaslin, Hancock County Judge/Executive
Members of the Hancock County Fiscal Court
Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hancock County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- Lack of notification of intent to borrow

This report is intended solely for the information and use of Hancock County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Simon, Underwood & Associates PSC". The signature is written in a cursive, flowing style.

Simon, Underwood & Associates PSC
Certified Public Accountants and Consultants

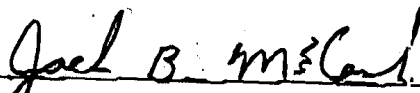
Louisville, Kentucky
August 25, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

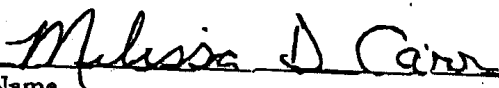
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
HANCOCK COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Hancock County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer